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FISCAL IMPACT STATEMENT

LS 6225

BILL NUMBER: SB 171

NOTE PREPARED: Feb 3, 2004

BILL AMENDED:

SUBJECT: EDGE Tax Credits.

FIRST AUTHOR: Sen. Mrvan

BILL STATUS: As Passed Senate

FIRST SPONSOR:

FUNDS AFFECTED: X GENERAL
X DEDICATED
FEDERAL

IMPACT: State

Summary of Legislation: The bill provides that for purposes of the EDGE Tax Credit, an applicant may also satisfy the average compensation requirements if the average wage paid by the applicant exceeds the average wage paid to all workers employed in Indiana in the same occupations as those of the applicant's Indiana employees or in substantially similar occupations..

Effective Date: January 1, 2005.

Explanation of State Expenditures: The bill could potentially broaden eligibility and expand the applicant pool for EDGE credits relating to job retention projects. This may increase the number of applications for EDGE credits and the number of EDGE credits awarded annually, creating additional administrative demands on the Indiana Department of Commerce (IDOC). The IDOC provides administrative support to the EDGE Board. The Department should be able to meet these demands given its current budget and resources. The September 4, 2003, state staffing table indicates that the IDOC has 32 vacant full-time positions, including regional offices.

Explanation of State Revenues: The bill changes the average compensation requirement for businesses seeking EDGE credits for job retention projects. The bill provides that average compensation of such a business must exceed the lesser of: (1) 105% of the average compensation paid to all employees in the county where the business is located (the current requirement); or (2) the average compensation paid to all workers employed in Indiana in the same or substantially similar occupations as the taxpayer's Indiana employees. This change could potentially increase the number of EDGE credits awarded for projects that lead to job retention. In addition, the bill changes the average wage standard to be considered by the EDGE Board in determining the EDGE credit amount for a business or for a nonprofit organization that is a high growth company with high-skilled jobs. Current law requires the EDGE Board to consider the amount by which a

business's average wage exceeds the average wage in the county. The bill requires that the EDGE Board either consider this current condition or consider whether the business or nonprofit's average wage is at least equal to the average wage paid to all workers in Indiana in the same or substantially similar occupations as the taxpayer's Indiana employees. These changes could potentially increase the revenue loss from EDGE credits. However, the magnitude of this loss is indeterminable.

Background: Under current statute, businesses that (1) create new investment and jobs in Indiana or (2) undertake projects to retain existing jobs in Indiana are eligible for EDGE credits. As it applies to investment that creates new jobs, the EDGE Program is designed to provide a revenue-neutral incentive for businesses to create new investment and jobs in Indiana. Such businesses receive credits equal to the individual income taxes withheld for employees filling the newly created positions. Since revenue from these employees would not have been collected in the absence of the new development, the state does not incur a net loss by redistributing the incremental income tax revenue as tax credits to businesses. For job retention projects, no new revenue would be realized since no new jobs would be created. As a result, EDGE credits for job retention are paid from existing revenues, resulting in a net loss to the state equal to the amount of EDGE credits granted to businesses for job retention. However, if a business were to select a more profitable alternative project site and move out of Indiana, there could be an even greater loss of revenue from the reduction in individual (employee's) and corporate taxes.

EDGE credits may be taken against a taxpayer's Adjusted Gross Income Tax, Insurance Premiums Tax, or Financial Institutions Tax liabilities. The duration of the credit may not exceed ten taxable years.

In 2002, the EDGE Board approved approximately \$58.1 M in new credits (to be used over several years) for 18 projects. The projects are expected to create 5,071 new jobs with an annual payroll of approximately \$213.9 M. From 1994 to 2002, EDGE credits were approved for 96 projects. During those years, approximately \$95.4 M in EDGE credits were made available, with the total amount of credits certified so far equal to about \$59.3 M. Approximately \$30.8 M in EDGE credits were available for approved projects in tax year 2002. The EDGE credit totals through 2002 apply only to EDGE credits for job creation projects. Revenue from the AGI Tax on corporations, the Insurance Premiums Tax, and the Financial Institutions Tax is distributed to the state General Fund. Eighty-six percent of the revenue from the AGI Tax on individuals is deposited in the state General Fund, and 14% of this revenue is deposited in the Property Tax Replacement Fund.

Explanation of Local Expenditures:

Explanation of Local Revenues:

State Agencies Affected: Department of State Revenue, Indiana Department of Commerce, EDGE Board.

Local Agencies Affected:

Information Sources: Indiana Department of Commerce, *2002 EDGE Annual Report*, March 31, 2003.

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